

BPA FACT SHEET

The role of direct service industries in the regional effort to reduce rates

April 19, 2001

***NOTE:** To ensure full compliance with the letter and the spirit of ex parte rules, all BPA employees who may have reason to discuss the contents of this fact sheet with outside parties are cautioned not to listen to or otherwise entertain or engage in communications regarding the merits of tiered rates or any other rate case issue.*

Background

To avoid a potential 250 percent, or greater, increase in BPA's wholesale rates this October, BPA, its customers and the region as a whole, must develop solutions to the problem of reducing BPA's load requirement by the end of May. The most direct way to control the size of BPA's rate increase is to minimize the amount of power that BPA must purchase in the spot market. To be successful, public and private utility customers as well as industrial and retail consumers must collectively reduce Northwest energy consumption on an unprecedented scale. BPA is calling for load reductions *now* by all Northwest electricity consumers to avoid the potentially severe economic consequences of a triple digit wholesale rate increase later this year. If this load reduction effort is successful, the potential BPA rate increase can be brought down from 250+ percent to below 100 percent.

Questions and answers

1. What if the DSIs refuse BPA's load reduction offer and resume operation in October, placing an additional 1,000 average megawatts of load on BPA?

This would likely result in:

- \$1.5 billion in additional annual costs because of spot market purchases BPA would have to make to meet its loads in the 2002 alone. This \$1.5 billion annual cost would have to be collected from BPA customers in the form of significant additional rate increases.
- Increased risk of blackouts in the Northwest this winter because the regional power system is already being pushed to the limit. Another 1,000 aMW of DSI load would increase the chances that the system will be pushed "over the edge" into blackout conditions. This fall and winter, all else being equal, another 1,000 aMW of DSI loads would totally offset the intensive conservation and new resource construction efforts going on in the region right now.
- Likely failure of BPA's effort to limit the average size of the October rate increase, resulting in an overall average increase for the region of about 250 percent or more. This is likely both because the DSI load would drive the rate increase up and because other customers would be much less likely to reduce their load demand on BPA if the DSIs refused to do so.

- Much greater loss of jobs throughout the region. The economic model developed for the regional Aluminum Study Group last year indicates that the rate increases caused by reopening aluminum smelters this fall could cost the region 4 jobs in other industries for every job created in the aluminum industry and related businesses.
- A very high cost to regional ratepayers for each aluminum industry job created. For every dollar in aluminum industry wages paid, regional ratepayers would pay roughly \$10 in BPA rate increases to cover the cost of power purchased for the DSIs.
- No economic help for those smelter workers who are displaced. All aluminum companies except Kaiser have agreed to compensate their workers during their shutdowns, at least through September. BPA is offering to provide funds to prolong this compensation for up to 2 more years, if the companies agree now to delay restart of their plants. BPA will not have this employee funding available if the companies wait until this fall and then decide they cannot operate. Waiting puts smelter workers' compensation at risk.
- The need to use more water to generate power that otherwise may be available for hydro operations to benefit endangered fish under many water supply conditions.

2. Why does BPA believe the DSIs will not be able to operate profitably after October 1, 2001, if rates increase by 250 percent or more?

In recent years, these companies were paying BPA about \$22/MWh for power supply. The companies have frequently stated to BPA that it is not possible for them to operate at wholesale electricity prices above \$30/MWh. Whether the companies pay the market rate of \$210/MWh, or BPA's rate with a 250 percent increase (about \$80/MWh), it is unlikely that they would be able to profitably resume operation this fall.

3. Is it true that BPA wants to put the DSIs out of business?

No. BPA would like to see at least some of the DSIs continue to be a viable part of the region's economy. Almost all aluminum smelters are shut down now because the industry found it more profitable to resell federal power than to operate. Until the regional power system recovers from the current shortage, power prices are unlikely to fall low enough to allow smelters to operate and their operation will further tighten power supply. BPA's recommendation that the companies delay resuming operations for one to two years is based on its assessment of the realities of the system and market. In one or two years, there is every chance that prices will have fallen low enough to again allow profitable operation for some of the aluminum industry. In the long term, BPA would like to work with the DSIs to help them become more self-sufficient in energy supply and end their reliance on an oversubscribed system by 2006. BPA is not required by law to continue to serve them after 2006 and three of the companies have agreed contractually that they have no right to direct service with federal power after that time.

4. But isn't BPA telling the DSIs that they have to stay shut down?

No. BPA is asking for their agreement to delay resuming operation. And BPA is offering to pay limited amounts for the planning certainty that agreement would provide.

5. Is BPA saying that 7,000 aluminum plant workers must, in effect, sacrifice their livelihoods for "the collective good" of the rest of the Northwest?

No. Nowhere near 7,000 aluminum plant workers would be employed even if the DSIs took all the power they are entitled to in BPA contracts. The number of workers actually employed in aluminum production using BPA power is closer to 3,000. And significantly far more jobs than this would be lost in other industries if BPA rates increase by 250+ percent. Finally, BPA is willing to provide limited compensation to the companies and their employees to help mitigate for the effects on them and local communities of a one to two-year delay in restart of operations. Unlike those in other industries who would lose their jobs to a significant BPA rate increase, the aluminum workers would not be left "out in the cold."

6. Isn't there a national security issue with keeping all this aluminum production offline?

We don't think so. Over the past 50 years, these smelters have periodically suspended production many times due to economic conditions and then restarted when they were needed. The same is true now. The smelters would be available to operate if needed in an emergency.